

alleviation programmes and subsidised food for the vulnerable sections will have to continue but, basically, as supplementary to the broad-based, employment-oriented growth. As discussed later, the focus of such interventions in the future should be on better targeting of the beneficiaries and on cost-effective delivery systems.

Food Management

Food management in India has three basic objectives: procurement of food grains from farmers at remunerative prices, distribution of food grains to the consumers particularly the vulnerable sections of the society at affordable prices, and maintenance of food buffers for food security and price stability. The instruments for food management are the Minimum Support Price (MSP) and Central Issue Price (CIP). The focus is on incentivising farmers by ensuring fair value for their produce through the Minimum Support Price mechanism, distribution of food grains at subsidised rates to 6.52 crore BPL families, covering all households at the risk of hunger under Antyodaya Anna Yojana (AAY), establishing grain banks in chronically food-scarce areas and strengthening the Public Distribution System (PDS). The nodal agency which undertakes the procurement and distribution and storage of food grains is the Food Corporation of India (FCI). The procurement under the current system is open-ended at MSP, while the distribution is governed by the scale of allocation and its offtake by the beneficiaries. Rice and wheat are predominant cereals in procurement of food grains.

Food Procurement Policy

The Indian government's food procurement policy is geared to achieve the twin objectives of serving consumers through price subsidy and supporting the price for producers. The policy has come under criticism not only for the increasing fiscal burden that it causes but also for administrative inefficiencies and creating market distortions.

Procurement of food grains by FCI continues to be higher in states such as Punjab, Haryana, Uttar Pradesh and Andhra Pradesh. These four states accounted for 69.7 per cent in 2006-07, 69.46 per cent in 2007-08 and 67.47 per cent in 2008-09. Punjab and Haryana which accounted for 91.1 per cent of procurement of wheat for the Central Pool in 2007-08, accounted for 66.88 per cent in 2008-09 and 69.53 per cent in 2009-10, indicating an increased share in procurement by other states.¹

Price and Distribution Controls in the Food Grain Market

The major elements of the food policy are procurement of grain at Minimum Support Prices (MSP), maintenance of buffer stocks and distribution at subsidised rates through the Public Distribution System (PDS). The Government of India (GoI) allocates grains to states at Central Issue Price (CIP) for distribution to consumers. The Food Corporation of India (FCI), an agency of the GoI, handles procurement, storage and transportation of grains to states. The states in turn distribute to consumers at subsidised prices through a network of more than 4,60,000 fair price shops (FPSs). The 'food subsidy' comprises the cost of procurement incurred by the GoI net of sales realisation (for rice, wheat, and sugar) and the carrying costs for maintaining the central pool of buffer stock incurred by the FCI and reimbursed by the GoI (Jha, 2007).²

The policy is effective for rice and wheat in major surplus states. For wheat, the government offers to buy all grain that comes forth for sale at the announced MSP. In the case of rice, part of the procurement is in the form of paddy at the MSP, which is custom milled and the rest, which is the major part, is procured as rice in the form of a statutory levy imposed by all major rice-producing states on rice millers/dealers. The levy percentage varies widely from 10 per cent in Pondicherry to 75 per cent in Haryana, Punjab and Orissa. Rice millers are paid levy rice prices fixed by the state government. The Commission for Agricultural Costs and Prices (CACP) recommends levels at which the MSP should be fixed based on several considerations. These include cost of cultivation, the overall shortage of grains as reflected by the trend in wholesale prices, and the need to keep in check the rate of inflation in the consumers' interest (Jha, 2007).

Fixing of the MSP to cover the full costs of cultivation imposes a heavy burden on the government's finances. Although the MSP is fixed supposedly based on a cost-plus formula, the actual price offered in practice is higher and influenced by high expectations of rich farmers represented by politically strong farm lobbies (Rao, 2001). The high and rising MSPs provided by the GoI for wheat and more recently, for paddy increased profitability of these crops and motivated farmers to shift greater area to these crops from coarse cereals, pulses and oilseeds. Moreover, the income transfers accrued disproportionately to large farmers confined mainly to surplus states. Price distortions in the output market combined with distorted prices of inputs such as fertilisers,

2. Jha, Shikha (2007). "Food Procurement Policy" in Kaushik Basu (ed.) *The Oxford Companion to Economics in India, op.cit.*

power and irrigation had an added detrimental effect not only on the production of other crops but also on the environment such as decline in water tables. The policy also led to an accumulation of buffer stocks of grains and the credit blocked in these stocks put pressure on interest rates and possibly crowded out more productive investment. These adverse fiscal and environmental implications led to increased recognition of the need to reform farm support policies (Jha, 2007).

Apart from supporting farmer prices, the government's policy of procurement helps supply grain to the PDS, the scheme to distribute subsidised grain to consumers. In order to reduce the budgetary costs of this scheme as well as to redirect subsidy mainly to the poor (people below the poverty line), the government shifted from a universal PDS to a Targeted PDS (TPDS) in 1997. However, in general the TPDS suffers from several deficiencies such as urban bias in coverage, leakage and diversion of grain to the open market due to lack of transparent accountable delivery systems. The move by the government to decentralise the procurement and PDS operations to states is in part meant to rectify these problems.

Public Distribution System (PDS)

The PDS has attracted considerable debate in recent years on the ground that the benefits of PDS are not reaching the poor on account of, *inter alia*, poor targeting and leakages in the system, despite its restructuring in 1997. It has also been argued that despite the huge food subsidy and the large-scale of intervention, the food security of many households is still marginal or insufficient. In recent years, there has been a substantial rise in procurement of food grains by the public sector agencies on account of consistent increases in Minimum Support Prices (MSP), despite the recommendations of the Commission for Agricultural Cost and Prices to freeze the same. It is argued that consistent increases in the MSP have distorted relative prices between alternate agricultural activities, land use patterns as well as the consumption of inputs (Table 13.1).

Procurement higher than the offtake had resulted in a build-up of excessive stocks of food grains since 2001-2002.

Food Subsidy

Provision of minimum nutritional support to the poor through subsidized foodgrains and ensuing price stability in different States are the twin objectives of the food security system. In fulfilling its

TABLE - 13.1
Procurement, Offtake, Stocks and Food Subsidy

Year	Procurement (Million Tonnes)	Oftake (Million Tonnes)	Stocks (Million Tonnes)	Food Subsidy (Rupees crore)
1	2	3	4	5
1993-94	26.40	18.61	20.54	5537
2000-01	35.43	17.95	44.98	12010
2001-02	41.91	16.15	59.14	17494
2002-03	35.46	45.60	—	24176
2003-04	37.29	45.13	—	25160
2004-05	43.48	44.4	24.4 (Jan.)	25800
2005-06	42.45	42.3 (Jan. 04)	21.7 (Jan.)	23071
2006-07	37.5	36.8	17.4 (Jan. 07)	23826
2007-08	39.8	37.4	19.2 (Jan. 08)	312.60
2008-09 (Prov.)	56.4	39.5	35.8 (Jan. 09)	43668
2009-10	56.9	49.7	47.7	58242
2010-11 (upto Dec., 2010)				51197

Note : B.E : Budget Estimate.

Source : Economic Survey 2003-04, 2004-05, 2006-07, 2007-08, 2008-09, 2010-11.

obligation towards distributive justice, the Government incurs food subsidy. While the economic cost of wheat and rice has continuously gone up, the issue price has been kept unchanged since 1 July 2002. The Government, therefore, continues to provide large and growing amounts of subsidy on foodgrains for distribution under the TPDS, other nutrition-based welfare schemes, and open market operations. The food subsidy bill has increased substantially in the past few years (Table 13.2).

TABLE - 13.2

Quantum of Food Subsidies Released by Government

<i>Year</i>	<i>Food Subsidy</i> (Rs. crore)	<i>Annual Growth</i> (Per cent)
1999-2000	9200.00	5.75
2000-01	12,010.00	30.54
2001-02	17,494.00	45.66
2002-03	24,176.45	38.20
2003-04	25,160.00	4.07
2004-05	25,746.45	2.33
2005-06	23,071.00	-10.39
2006-07	23,827.59	3.28
2007-08	31,259.68	31.19
2008-09	43,668.08	39.69
2009-10	58,242.45	33.37
2010-11*	51,196.97	-

Note: * Figures up to 22 December 2010

Source : Economic Survey 2010-11.

Buffer Stock

The stock position of foodgrains in the Central pool as on 1 October, 2010 is 46.2 million tonnes comprising 18.4 million tonnes of rice and 27.8 million tonnes of wheat. This is adequate for meeting the requirements under the TPDS and welfare schemes during the current financial year (Table 13.3).

Food Security

India's food security system is one of the largest in the world but is confined almost entirely to provisioning cereals. This system comprises the Food Corporation of India (FCI) which implements the MSP for cereals, holds buffer stocks, and delivers grain to a public distribution system (PDS) with a network of about 460,000 fair price shops (FPS). Since its inception after the food shortages of the mid-1960s, this system has managed to help the country avoid famine, contain food price variability to much less than in world markets and

TABLE - 13.3
Buffer Stock Norms and Actual Stocks

As on	WHEAT		RICE		TOTAL	
	Minimum Buffer Norms	Actual Stock	Minimum Buffer Norms	Actual Stock	Minimum Buffer Norms	Actual Stock
January 2008	82	77.12	118	114.75	200	191.87
April	40	58.03	122	138.35	162	196.38
July*	201	249.12	98	112.49	299	361.61
October	140	220.25	52	78.63	192	298.88
January 2009*	112	182.12	138	175.76	250	357.88
April	70	134.29	142	216.04	212	350.33
July	201	329.22	118	196.16	319	525.38
October	140	284.57	72	153.49	212	438.06
January 2010	112	230.92	138	243.53	250	474.45
April	70	161.25	142	267.13	212	428.38
July	201	335.84	118	242.66	319	578.50
October	140	277.77	72	184.44	212	462.21

Notes: * Buffer norms include Food Security Reserve of 30 lakh tonnes of wheat from 1 July 2008 and 20 lakh tonnes of rice from 1 January 2009 onwards.

Source : Economic Survey 2010-11.

offered enough price support for farmers to nearly triple cereals production. Quite apart from PDS entitlement, this delivered an almost steady decline in real market prices of cereals over the 1970s and 1980s and rising per capita availability.

However, the yield deceleration from early 1990s had cost implications that made it more difficult to reconcile producer, consumer and fiscal interests, especially with MSP being used in the early 1990s as an instrument to compensate farmers for cuts in fertiliser subsidy. The system ran into crisis during the Ninth Plan when large MSP increases were continued despite falling world prices and simultaneously, the PDS was converted from universal to a targeted benefit.

The Targeted Public Distribution System (TPDS) was introduced in 1997 in response to the 1990s reversal of the earlier decline in real cereals prices and to meet criticism that PDS did not deliver adequately to the poor. The TPDS replaced the earlier universal PDS entitlements

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with differential prices for the below poverty line (BPL) population and those above the poverty line (APL). BPL prices were set much lower than earlier uniform prices and, in order to reduce subsidy outgo, APL prices were increased in phases to reach full cost by 2000.

But since MSPs were above market prices, full cost pricing caused the APL to exit PDS, rendering many FPS unviable, while FCI bought almost the entire market arrivals in traditional surplus areas. With exports restrained by low world prices, stocks increased from 18 million tonnes at end of 1997 to 58 million tonnes at end of 2001. The increased cost of stock holding doubled the food subsidy to nearly 1 per cent of GDP.

Recent Policy Initiatives

In the last few years, the government initiated steps to encourage private participation in grain markets. The role of the FCI is proposed to be restricted to timely sales and purchases to maintain stability in food prices. In a scenario of trade liberalisation, however, this needs to be complemented with appropriate trade and tariff policies. As part of a new strategy, the government plans to promote exports through long-term credit, removal of export restrictions, establishment of Agricultural Export Zones, and transport subsidies for export of wheat and rice from government warehouses. But it also needs to improve facilities for grading and measuring standards, and address quality problems. In order to take full advantage of growing exports, the exporters would need to have better ports and other domestic infrastructure facilities, which are currently very meagre. The ports are highly congested, have obsolete equipment, are managed by government-controlled port trusts, and marred by bureaucracy. Undertaking reforms in these areas would allow India to take on competition from major exporting countries such as Vietnam and Pakistan for rice and the United States for wheat.

Domestic marketing reforms also need to be undertaken so that there is one integrated market for food within India and restrictions do not prevent inter-regional flows in a timely and efficient manner. The private sector should be allowed to operate more freely in the market and to trade and store grains based on its expectations from the market. The public sector needs to play a facilitating role by providing the appropriate economic environment and creating a level playing field for private operators and traders. Several government committees have recommended the abolition of statutory and nonstatutory charges such as *mandi* charges and purchase tax to reduce transaction costs and encourage free movement of grains domestically.

The high costs of maintaining public stocks can be reduced through encouraging private storage, which plays a complementary role to public storage. Support price should not be fixed at unduly high levels. The level of the MSP should be such that it provides protection against distress sales during surplus situations and not a guarantee for fixed returns on the costs incurred. The costs of operation of the FCI can be reduced by decentralising procurement to local market, carrying out storage operations at state level, and by avoiding cross hauling of grain that takes place in the current centralised system (Jha and Srinivasan, 2005). Decentralisation would help to ensure market efficiency and reduce the economic costs of running the PDS. Efficient functioning of a decentralised system would, however, require support and cooperation from state governments. Reforms to the GoI's food procurement policy in these directions would help achieve its twin objectives more effectively (Jha, 2007).

Food Security and Future Sources of Growth in Agriculture

There seems to be a dramatic decline in the rate of growth in the value of food grains output from 3.6 per cent during 1992-93 to 1996-97 to 1.3 per cent in 1997-98 to 2001-02, and then to 1.4 per cent during 2002-03 to 2006-07. These numbers have raised concerns regarding our population growth (GoI 2007a). Several researchers have cited technology fatigue, a deteriorating natural resource base, and policy neglect as some of the reasons behind the stagnating yields of several food grain crops. This has led the media to create a 'hype' about our food security being compromised, leading to dire consequences.³

However, all this 'hyped' concern about food security dilutes if we include 2007-08 in our calculations, and see the grain output in tonnage rather than in the value of output. In tonnage terms, the food grain production in 2007-08 has been estimated at 230.78 million tons, up from 217.3 million tons for 2006-07—a growth rate of 6.2 per cent. This has raised the growth rate of production of food grains to 2.1 per cent for the period 2002-03 to 2007-08—which is higher than the rate of growth of population (about 1.6 per cent). Also, one should not forget that, even when the food grain growth rate (in value of output terms) was 1.3 per cent during 1997-2001, it led to a huge accumulation of stocks of 63 million tons in 2002, indicating shifting demand patterns

3. Gulati, Ashok (2010). *op.cit.*

away from cereals. It is worth remembering that, historically, grain production has often shown a sort of 'step function'—that is, stagnating growth patterns of the value of output of the crop, livestock, and fisheries sectors over three distinct time periods indicate a growing diversification of the production basket. The average annual growth rate of value of output of food grains is much less than that of the non-food grain sector which is comprised of high value and commercial crops. These trends suggest that the major sources of future growth in agriculture will not come from grains but from commercial and high value agriculture.

The 'hyped' concern about food security has often overshadowed the fact that India has been a net exporter of cereals for more than a decade, and more than 28 million tons of rice and wheat were exported between 2002-03 and 2005-06. Not many are aware of the fact that even in 2006-07—when India imported 6.1 million tons of wheat worth roughly Rs. 5,850.5 crore (about \$ 1.3 billion)—India exported 4.7 million tons of rice, the value of which was Rs. 7,036 crore (about \$ 1.6 billion). And, in the so-called 'global food crisis' year 2007-08, India exported about 9.7 million tons of cereals, 6.5 million tons of rice, and about 3 million tons of corn in particular against an import 1.8 million tons of wheat. In most of these years, India's grain stocks have been way above buffer stock norms (see table 13.3).

Bulging food stocks have resulted in a burgeoning food subsidy bill, budgeted at Rs. 582 billion for the year 2009-10 as a result of increasing procurement levels and declining off-take.

Agricultural Price Policy⁴

The Government's price policy for agricultural commodities seeks to ensure remunerative prices to the growers for their produce with a view to encouraging higher investment and production, and to safeguard the interests of consumers by making supplies available at reasonable prices. The price policy also seeks to evolve a balanced and integrated price structure in the perspective of the overall needs of the economy. Towards this end, the Government announces minimum support prices (MSPs) each season for major agricultural commodities and organises purchase operations through public and cooperative agencies. The designated Central nodal agencies intervene in the market to undertake

4. Kapila, Uma (2009). "Developments in Indian Agriculture: Major Issues", in Uma Kapila (ed.), *Indian Economy Since Independence*. New Delhi: Academic Foundation.

procurement operations with the objective of ensuring that market prices do not fall below the MSPs fixed by the Government.

The Government decides the support prices for various agricultural commodities after taking into account the recommendations of the Commission for Agricultural Costs and Prices (CACP), the views of State Governments and Central Ministries as well as such other relevant factors as considered important for fixation of support prices.

The objectives of price policy as propounded from time to time are multiple and often conflicting. The price policy was evolved in the context of relative shortage of agricultural products, particularly of food grains. Thus, we had the overriding objectives of the price policy as achieving self-sufficiency in food grains (understood as the availability of adequate food grains from domestic production) and protection of consumer from scarcity-induced speculative price rise. As V.S. Vyas points out, "The main function of prices, i.e., to act as signals for allocation of resources has been made subservient to income parity and food security objectives."

Apart from the consideration of income transfers, the policy is also directed to increase agricultural production by offering higher 'incentive' prices. A discriminatory price policy can be used to encourage inter-crop shifts in resource use. However, when it comes to aggregate agricultural output, greater reliance has to be placed on 'non-price' factors, e.g., generating and extending more efficient technologies. The available studies clearly bring out that aggregate supply response of agriculture is very weak. Thus, any attempt to use high prices to encourage agricultural production can bring in its wake irreparable distortions in the price structure.

These limitations of price policy are not very often recognised. Also, the strength of price policy in affecting desirable shift in cropping pattern fully exploited. As Vyas remarks, "In a mixed economy like ours an important objective of the price policy could be to give directions to the cropping pattern not only on the basis of the existing demand supply situation but also to take into account a qualitatively superior crop mix, e.g., to provide a price advantage to nutritionally superior crops or to the crops where the country may have comparative advantage. In fact, in this respect we seem to be regressing. In the 1970s price policy was used as an effective tool to encourage production of crops where superior technology was available" (Vyas, 1989). In recent years, we have largely neglected this aspect of price policy.

Further, there has been no clarity on the priority to be assigned among these numerous objectives, or the trade-off involved in pursuing these objectives simultaneously. If we are to go by the public pronouncements, the objectives sought to be achieved by the price policy include, ensuring: (i) reasonable prices for the growers, (ii) reasonable prices for the grains released from public distribution system, and (iii) reasonable prices in the open market. A moment's reflection will show that in most of the circumstances, these aims conflict with each other. The price policy cannot resolve all conflicts in the society.

It must be recognised that price policy taken by itself is a weak instrument in giving directions to agricultural economy, more so as an instrument of income transfer. While the objective of providing an insurance cover in terms of guaranteed minimum prices to a large section of agricultural producers could be a worthy objective, but until and unless required resources are available and administrative machinery is in place, mere announcement of minimum prices for a large number of commodities may not serve any purpose. It may, in fact, do more harm with an erosion of the credibility of the government. In view of this, it is suggested that the support prices should be applicable only for a limited number of crops. Crops which can be considered as price leaders or the crops, for which technological breakthrough is imminent ought to be covered under the price guarantees. The other crops to be considered for support are the crops grown under high risk environment and there also it should be a transient measure i.e., till a viable crop insurance programme is evolved.

Along with limiting the scope for price policy is the need for a discriminatory and flexible approach to price interventions. By covering a large number of commodities on the one hand and by ensuring minimum prices in the guise of procurement prices on the other, not only government's commitment has enhanced to an unmanageable extent, it has also led to serious distortions in agricultural economy.

V.S. Vyas remarks, "The time has come to take a serious look at the scope, instruments and institutions of agricultural price policy. There is a need to recognise that the price policy is a weak instrument for income transfers; our capacity to offer minimum support prices for a large number of commodities is limited; need for dovetailing agriculture and trade policies is urgent. Instrument of minimum support prices has to be used sparingly; procurement operations need to be made more business like; CACP should retain its expert character rather than trying to be representative of various interests, FCI should be decentralised and debureaucratised and the states should be made major stakeholders."

National minimum support prices (MSPs) for food grains and other major commodities are recommended by the Commission for Agricultural Costs and Prices (CACP), but are actually set by a committee chaired by the Prime Minister. CACP recommendations are based on several factors, but key factors are assessments of costs of production (CoP) and domestic and global market conditions. Historically, the MSPs for wheat and rice were generally increased at rates below inflation, and remained well under import parity prices. Although intended to be a national programme covering all major crops, the MSPs are generally defended by GoI purchases only for wheat and rice in the major surplus areas of Punjab, Haryana, western Uttar Pradesh and Andhra Pradesh (rice only) (Landes and Gulati, 2004).⁵

Beginning in the late-1990s, the MSPs set for wheat and rice became increasingly out of step with domestic market conditions. One key factor was (and still is) that the CoP concept used in setting the price became a "full cost" measure that, in addition to variable input costs, included the rental value of land, the imputed value of family labour, and a return to management. Another was pressure to compensate farmers for the price swings associated with changes in India's rice and wheat export policy during 1995 and 1996. For rice, higher market prices resulting from the initial removal of export restraints later created pressure for higher MSPs when world prices fell. Similarly for wheat, lower market prices following the re-imposition export restraints led the government to compensate farmers with higher MSPs. With these developments, the MSPs became disconnected from domestic market conditions and—when world prices fell from a temporary spike in 1996–1997—from competitive world market prices. The tendency for MSPs to be increased has likely been compounded as MSP benefits boost land rental, labour and management costs, thus leading to higher CoP.

An important factor affecting MSP policy in the 1990s concerns the changing political dimensions of the policy when India entered an era of coalition governments and the farm lobby became more influential. During 1995–96–2001–02, just before and during the accumulation of surpluses, the government set MSPs above the CACP recommendation in four out of seven years for rice and five out of seven years for wheat (Parikh *et al.*, 2002). Another key dimension is that the MSP mechanism is one of the few levers available to Indian policy

⁵. Landes, Rip and Ashok Gulati (2004), "Farm Sector Performance and the Reform Agenda", in K.L. Krishna and Uma Kapila (eds.), *Industry, New Delhi*.

makers and there is a tendency to try to use it to achieve multiple policy goals, including both price stabilisation and income support.

The failure of price policy to successfully adapt to the new environment has had a number of impacts. First, breaking with the historical pattern, domestic wheat and rice prices have tended to strengthen relative to both world and domestic prices, and to move above domestic market clearing levels. While benefiting the relatively few producers receiving wheat and rice MSPs, higher consumer prices have undoubtedly had negative impacts. Per capita wheat and rice procurement and prices contributed to decline in consumption of open market supplies that have not been offset by subsidised distribution. A recent study of the economy-wide impacts of increasing the wheat and rice MSPs when they are above market clearing levels found that reduced consumption and investment associated with higher prices actually reduced incomes, both in aggregate and for most rural and urban income groups (Parikh *et al.*, 2002).

Second, by maintaining high prices, the government has become responsible for the storage and transport of most of the marketed surplus of FAQ-grade wheat and rice in the country—what some observers have termed a “*de facto* nationalisation” of grain trade. In addition to raising budgetary costs, the policy provides little incentive for private investment in grain storage, handling or distribution, with the exception of the fees traders can earn in the export of subsidised grain allocated by the government.

Third, by focusing on supporting relatively high prices only for wheat and rice in a few regions, MSP policy has not been made an effective tool for stabilising producer prices for other crops and supporting the diversification of agriculture.

Fourth, the budgetary cost of FCI operations under current policies has now reached about \$5.5 billion. When policies support domestic prices above market clearing, much of this subsidy accrues to producers rather than consumers. Combined with the cost of subsidies on fertiliser and other inputs, the subsidy bill has burgeoned to about 43,668 crore annually, far exceeding both public and private capital formation in agriculture. Subsidy outlays are crowding out new investment needed to boost productivity and marketing efficiency.

Finally, the policy of maintaining high wheat and rice prices has contributed to emergent environmental problems, particularly associated with the intensive wheat-rice cropping system in northern India. When

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combined with the low cost of irrigation water—much of which is either free, stolen, or subsidised—the strong price incentives for wheat and rice are contributing to the rapid deterioration of groundwater resources, and rising concern with deteriorating soil fertility in some areas.

Removal of Export Restraints

Through the 1980s and early 1990s, Indian agriculture was burdened with export restrictions and overvalued exchange rates that resulted in net taxation of the sector. Exports of agricultural goods were restricted through myriad controls, including prohibitions, licences, quotas, marketing controls and minimum export prices, for the sake of domestic food security. For a number of products, the quantitative controls on exports were administered through trading enterprises in the public and cooperative sectors.⁶

Agricultural export policies began to change in 1994 and, barring the occasional reversal, have been progressively liberalised. The ministry of commerce, through the director general of foreign trade, imposes or removes export restrictions in order to promote exports while also ensuring ‘adequate’ domestic supplies of essential commodities at ‘reasonable’ prices.

Developments in the Indian rice market since the removal of export restraints may be indicative of the impacts of this type of reform. Private traders were permitted to export common rice beginning in 1994-95 and, although exports remain small relative to production, India immediately became a major player, selling primarily into the lower end of the international market. Since 2000-01, however, the combination of lower world prices and firm domestic prices has made Indian rice exports less price-competitive, leading to GoI subsidies for rice exports.

Landes and Gulati maintain rice exports have helped moderate the growth of surplus rice stocks and, together with higher MSPs and lower domestic distribution of subsidised rice, contributed to a strengthening of domestic prices. The growth in exports, along with relaxation of earlier policies limiting rice milling to small-scale enterprises, are stimulating investment in modern rice milling and grading equipment.

With these potentially positive impacts on investment and competitiveness, the removal of export restraints opens up a new set of policy issues concerning the impacts of global price changes on the domestic market. First, the removal of rice export restraints initially

6. Ibid.

benefited producers and traders when it pulled domestic prices above the MSP. But, when world prices retreated, the MSPs became disconnected from market realities, leading to increases in domestic and export subsidy costs. Thus, with the removal of export restraints, it becomes important to have an MSP setting mechanism (and discipline) that keeps MSPs connected with domestic and world prices.⁷

In more recent period since 2008, two issues have been the subject of much debate: the unprecedented increase in global prices of agri-commodities, and how Indian policymakers can make sure that their people do not suffer. Several factors—ranging from energy prices, diversion of grains and oils for bio-fuels, supply shocks from Australia and the EU, growing demand from Asia and Africa, export controls by certain countries (including India), and speculative funds in commodity markets—are supposed to be pushing global agricultural prices (Abbott et al. 2008; ADB 2008; Chand 2008; FAO 2007; OECD–FAO 2008; Rosegrant 2008; Von Braun et al. 2008). Most of these studies paint a gloomy picture with respect to global prices. They suggest that the era of low agricultural prices is over, and that they are likely to remain high in the next five to ten years. However, all these studies, despite their sincere efforts, remain weak on diagnostics, especially in terms of nailing down the relative importance of various factors that have driven the prices so high in 2008. Policymakers need to avoid knee jerk reactions as India's buffer stocks are comfortable and Indian food price inflation, though high, is way below the global food price inflation. However, in the long run, investments in agricultural research and development (R&D), infrastructure, and markets have to be increased in order to augment food supplies as also to accelerate the rates of growth in Indian agriculture. (Gulati 2010)